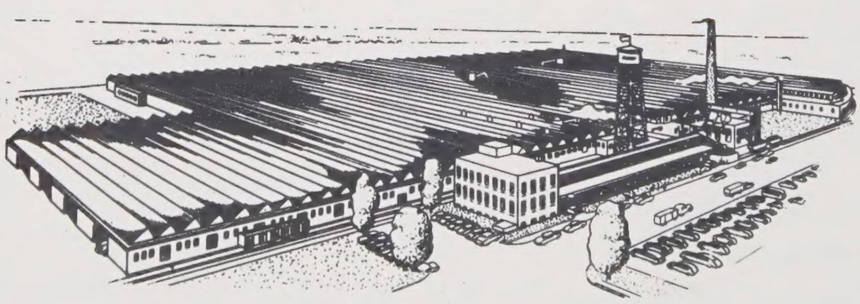
1963

52nd Annual Report

FOR THE YEAR ENDED DECEMBER 31, 1963

Beatty



ESTABLISHED 1874

BEATTY BROS. LIMITED, FERGUS, ONT.

CONSOLIDATED FINANCIAL STATEMENTS

BEATTY BROS. LIMITED

(Incorporated under the laws of Canada)

and Subsidiary Companies

YEAR ENDED DECEMBER 31, 1963

FACTS IN BRIEF

	1963
Net profit for year	$ 696,866
Cash	361,118
Total current assets	16,327,211
Total current liabilities	7,327,482
Ratio — current assets to current liabilities	2.2 to 1
Working capital	8,999,729

SUMMARY OF FINANCIAL ACTIVITIES

FACTORS WHICH PROVIDED CASH:		
Reduction of Assets—		
Inventories	$2,260,776	
Accounts receivable	918,111	
Fixed assets (net)	474,133	
Prepaid expenses, income taxes recoverable and mortgages receivable	96,882	$3,749,902
Operations—		
Net profit for the year	$ 696,866	
Add items included therein which did not require an outlay of funds:		
Depreciation	680,724	
Interest of minority shareholders in profits of subsidiaries	209,828	
Increase in provision for warranties charged to operations	100,000	1,687,418
Net increase in accounts payable, income and other taxes payable and accrued liabilities		322,678
		$5,759,998
FACTORS WHICH REQUIRED CASH:		
Redemption of preferred shares of subsidiaries	$1,165,077	
Reduction of funded debt of subsidiaries	165,500	
	$1,330,577	
Net profits on share redemptions included in profit for year	10,323	
	$1,340,900	
Purchase of additional shares of General Steel Wares Limited	196,144	
Charges applicable to prior years charged to earned surplus	278,000	1,815,044
DECREASE IN BANK LOANS AND SHORT TERM NOTES (NET)		$3,944,954

REPORT OF THE BOARD OF DIRECTORS

To The Shareholders:

Your directors take pleasure in reporting to you on the operations of your company for the year and on its financial position at December 31, 1963.

The end of 1963 marked the first full year of operations since the acquisition of the controlling interest in General Steel Wares Limited in the latter part of 1962. Accordingly, the enclosed financial statements represent a consolidation of the General Steel Wares business with that of Beatty Bros. Limited and the comments made are on the consolidated figures.

At December 31, 1963, your company owned 62% of the issued common stock of General Steel Wares Limited.

Operating Results:

Net profit for the year was $697,000 after deducting the interest of outside preferred and common shareholders of General Steel Wares in the net profit of that company. An important contribution to this profit was the marked improvement in operating results of General Steel Wares which reflects the programmes of profit margin improvement and reduction of investment in operating assets started in that company late in 1962.

The 1962 net profit of Beatty Bros. was $592,000. In making comparisons between the two years, it should be remembered that in 1962, the results of the two companies were not consolidated. Had they been consolidated, the 1962 profit would have been reduced by $315,000 to $277,000 as described in note 1 to the 1963 financial statements attached. It should also be noted that in both years the income tax provisions have been reduced as a result of carrying forward the losses of prior years.

During the year, an appropriation of profits has been made by General Steel Wares to create a reserve of $250,000 for future tooling costs for appliances. Your company has followed a consistent policy of writing off tooling and engineering costs as incurred.

Last year, we reported to you that your company was unsuccessful in its defence of a patent infringement suit brought against it in 1959 on a wringer mechanism. During the year, your management negotiated a settlement of this suit with the complainants, Maxwell Limited and The Lovell Manufacturing Company and the cost of the settlement in excess of the amounts previously provided has been included in the charge of $278,000 shown in the earned surplus account.

Exports:

Sales in markets outside Canada continued to increase during the year both through subsidiaries and on a straight export basis.

During 1963 a subsidiary corporation was formed to cover the U.K. and European markets.

Late in 1962, your company, through a newly incorporated subsidiary, commenced the sale of barn equipment to dealers in the United States. Further new ground was broken in 1963 with the sale of appliances to dealers in the same general area.

Financial Position:

The cash position was improved through faster turnover of inventories and accounts receivable; inventories were reduced by $2,261,000 and receivables by $918,000. Operating profits and non-cash charges accounted for a further $1,687,000 of the cash made available during the year. Sale of fixed assets and decrease in other assets produced an additional amount of $571,000.

Funded debt and preferred shares of General Steel Wares were reduced $400,000, and this largely reflected normal sinking fund requirements. Also, all of the outstanding preferred shares of The Easy Washing Machine Company, Limited were purchased and redeemed at a total cost of $931,000. Bank loans (less cash balances) and short term notes were reduced by $3,945,000.

The consolidated financial position is stronger now than it was a year ago.

Re-arrangement of Production Facilities:

One of the problems facing your company and the subsidiaries is excess production and distribution facilities. During the year the Lucknow plant and Montreal warehouse were sold. An agreement has been entered into for the sale of the Toronto River plant of General Steel Wares and the production has been moved to company's plants in Montreal and London. Assembly of laundry appliances formerly carried on in the Toronto plant of The Easy Washing Machine Company Limited has been transferred to London and the production of certain component parts transferred to the Beatty Bros. Fergus plant. Substantial operating economies will result.

These moves have involved considerable re-adjustment for many of the employees, particularly those of General Steel Wares. Your directors and management would like to express their appreciation of the outstanding co-operation shown by the employees and the union in successfully meeting this problem.

Remaining plants will be the Fergus plant of Beatty Bros. housing production of barn equipment, pumps and wringer washers, and plants of General Steel Wares at London, Montreal and Fergus. Production of refrigerators, ranges, automatic laundy equipment, air conditioners, water heaters and architectural products will be concentrated at London which will also be the centre of all appliance engineering activity. Housewares production will be centered at the Montreal plant and the G.S.W. Belwood plant in Fergus will continue the manufacture of freezers.

Outlook:

The year 1963 has been one of continuing progress for your company but considerable further progress must be made to reach the goals which have been set for 1964. 1964 results will be charged on a current basis with the substantial relocation costs outlined above.

Since the beginning of 1964, your company has purchased the wringer business of Maxwell Limited and acquired the Canadian rights to the Lovell wringer mechanism. This includes the purchase of inventories, equipment and tooling and production of wringers will be started in the Fergus plant in May.

Near the end of the year, your company purchased the McDougall Pump Company, Division of Upton, Bradeen & James Limited. This acquisition, which will be operated as a separate sales division, will supplement our existing lines of pumps and should prove effective in increasing your company's market participation. The McDougall line of pumps will be manufactured in existing facilities in the Fergus plant and no assets were involved in the purchase other than inventories.

The McDougall pump and Maxwell wringer businesses are valuable additions to your company's lines of products. A substantial increase in production volume in your company's principal facilities in Fergus will result and the company's profit potential will be broadened considerably.

Both Beatty Bros. Limited and General Steel Wares Limited will continue the high standard of product quality and design which they have achieved in the past. An expanded program of research and product development should result in products which in cost and design will be fully competitive not only in the Canadian market, but in markets outside of Canada. We firmly believe all our products must be fully competitive in world markets to ensure domestic success.

On behalf of the board, we would like to express our appreciation for the efforts of management and employees at all levels who have helped to make 1963 a year of continuing achievement for your company.

Fergus, Ontario,
March 20, 1964.

On behalf of the Board

President

BALANCE SHEET DECEMBER 31, 1963

ASSETS

CURRENT ASSETS:			
Cash	$ 361,118		
Accounts receivable less allowance for doubtful accounts	4,713,692		
Inventories valued at the lower of cost or market	10,716,455		
Income taxes recoverable	140,192		
Prepaid expenses and manufacturing supplies	395,754	$16,327,211	
FIXED ASSETS:			
Land, buildings and equipment (note 2)	$19,951,740		
Less accumulated depreciation	13,222,892		
	$ 6,728,848		
Less provision for expected loss on disposal of machinery and equipment of General Steel Wares Limited on the relocation of manufacturing facilities	400,000	6,328,848	
OTHER ASSETS:			
Excess of cost of common shares of subsidiary companies over book value thereof at dates of acquisition –			
General Steel Wares Limited	$ 404,600		
The Easy Washing Machine Company, Limited (on its acquisition by General Steel Wares Limited)	507,056		
	$ 911,656		
Mortgages receivable deposited with Trustee for First Mortgage Bonds	31,874		
Engineering, tooling and patent costs, less amounts written off	2	943,532	
		$23,599,591	

On behalf of the Board:
R. M. BARFORD, *Director.*
R. A. STEVENS, *Director.*

LIABILITIES

CURRENT LIABILITIES:		
Bank loan	$ 1,153,603	
Accounts payable and accrued charges	4,869,600	
Income and other taxes payable	334,946	
Dividends payable	45,106	
Provision for warranties	600,000	
Sinking fund instalments of funded debt due within one year	208,500	
Sinking fund for preferred share redemption	115,727	$ 7,327,482
FUNDED DEBT OF SUBSIDIARY COMPANIES (note 3)		4,203,000
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS		180,500
RESERVE FOR FUTURE TOOLING COSTS		250,000
MINORITY INTEREST IN GENERAL STEEL WARES LIMITED AND ITS SUBSIDIARIES:		
5% cumulative redeemable preferred shares (redemption price $3,788,925)	$ 3,608,500	
Less sinking fund for preferred share redemption	115,727	
	$3,492,773	
Common shareholders' interest in capital and surplus	1,875,114	5,367,887
		$17,328,869
SHAREHOLDERS' EQUITY:		
Capital (note 4)–		
Issued and outstanding:		
178,349 5% non-cumulative redeemable, preferred shares, par value $12.00 each	$ 2,140,188	
42,818 class "A" shares without par value convertible into preferred shares	75,198	
417,000 common shares without par value	737,500	
	$ 2,952,886	
Earned surplus	3,317,836	6,270,722
		$23,599,591

PROFIT AND LOSS AND EARNED SURPLUS Year Ended December 31, 1963

Profit from operations before the charges set out below		$2,240,747
Less:		
Depreciation	$680,724	
Interest on funded debt	191,271	
Interest on other loans	197,436	1,069,431
Profit or (loss) from operations before income taxes		$1,171,316
Income taxes		219,700
		$ 951,616
Capital gains on fixed asset disposals		145,160
Profits (net) on redemption of preferred and preference shares of subsidiaries		10,323
Net profit before minority interest in profits of subsidiaries		$1,107,099
Less:		
Dividends paid on preferred and preference shares of subsidiaries	$200,405	
Interest of minority shareholders in profits of subsidiaries	209,828	410,233
NET PROFIT FOR THE YEAR		$ 696,866
EARNED SURPLUS, BEGINNING OF YEAR (note 1)		3,252,792
		$3,949,658
Deduct:		
Additional warranty provision to cover contingencies	$300,000	
Reserve for future tooling costs	250,000	
	$550,000	
Less portion applicable to minority interest	210,500	
	$339,500	
Charges applicable to prior years, (principally costs of settling a patent action in excess of amounts previously provided)	278,000	
Appropriation of surplus on the conversion of Class "A" shares (note 4)	14,322	631,822
EARNED SURPLUS END OF YEAR		$3,317,836

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1963

1. Subsidiary companies consolidated:

The consolidated financial statements reflect a consolidation of Beatty Bros. Limited and its partially owned subsidiaries, General Steel Wares Limited and The Easy Washing Machine Company, Limited, and several other small subsidiaries.

Control of General Steel Wares Limited was acquired in the latter part of 1962. Accordingly the assets and liabilities and the results of operations of that company were not consolidated with those of Beatty Bros. Limited for the year 1962.

The balance of earned surplus of Beatty Bros. Limited at December 31, 1962 as shown by its financial statement was		$3,568,038
To arrive at the consolidated earned surplus at the beginning of 1963 the following items are deducted:		
Portion of loss of General Steel Wares Limited in 1962 applicable to the company's holdings since acquisition	$240,000	
Profit on sale of fixed assets from Beatty Bros. Limited to General Steel Wares Limited in 1962	62,746	
Profit on inventories of Beatty Bros. manufacture included in General Steel Wares Limited inventory at December 31, 1962, less income taxes thereon	12,500	315,246
		$3,252,792

2. Fixed assets:

Fixed assets are valued at cost except for buildings and equipment of General Steel Wares Limited owned at December 31, 1932 which are valued as appraised at that date.

3. Funded debt:
Details of this debt are as follows:

	Outstanding	*Sinking Fund instalment due within one year*	*Net*
General Steel Wares Limited— First Mortgage Bonds:			
Series "A" — 3½% due May 1, 1970	$2,330,500	$108,500	$2,222,000
Series "B" — 5% due April 15, 1973	1,701,000	70,000	1,631,000
	$4,031,500	$178,500	$3,853,000
The Easy Washing Machine Company Limited— Sinking Fund Debentures:			
Series "A" — 5¾%, due June 30, 1969	380,000	30,000	350,000
	$4,411,500	$208,500	$4,203,000

The total amount of General Steel Wares bonds authorized is $8,000,000. Of these, $1,500,000 have not been issued. The total amount of Easy Washing Machine Company, Limited debentures authorized is $1,500,000., of which $750,000. have not been issued.

4. Capital:
The share capital of the company is as follows—

5% non cumulative redeemable preferred shares, par value $12.00 each (cumulative after January 1, 1965)	
Authorized: 285,983 shares (after deducting 131,017 shares which have been redeemed)	
Issued and outstanding: 178,349 shares	$2,140,188
Class "A" shares without par value, convertible share for share into preferred shares	
Authorized: 42,818 shares (after deducting 374,182 shares which have been converted into preferred shares or purchased and cancelled)	
Issued and outstanding: 42,818 shares	75,198
Common shares without par value	
Authorized: 600,000 shares	
Issued and outstanding: 417,000 shares	737,500
	$2,952,886

During 1963, 1,400 Class "A" shares were converted to preference shares. The appropriation of earned surplus on the conversion of the Class "A" shares was computed as follows:

Par value of 1,400 preference shares at $12.00 per share	$16,800
Less value at which Class "A" shares were carried in capital account (approximately $1.77 per share)	2,478
	$14,322

5. Income taxes:
The income taxes deducted in arriving at the net profit for the year have been reduced by approximately $385,000 principally as a result of applying prior years' losses incurred by a subsidiary before its acquisition.

6. Fees and salaries:
Director's fees for 1963 were $12,875 and salaries of officers and legal fees were $274,849.

AUDITORS' REPORT

To the Shareholders of
Beatty Bros. Limited:

We have examined the consolidated balance sheet of Beatty Bros. Limited and its subsidiary companies as at December 31, 1963 and the consolidated statement of profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and the consolidated statement of profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 28, 1964.

CLARKSON, GORDON & CO.,
Chartered Accountants.

BOARD OF DIRECTORS

R. M. Barford
R. A. Stevens
A. A. P. Menzies
W. F. Pearson
G. R. Gardiner
Miss M. P. Hyndman, Q.C.
G. E. Robertson
G. Rodanz
R. Pigeon

OFFICERS

G. R. Gardiner	Chairman
R. M. Barford	President and Treasurer
R. A. Stevens	Executive Vice-President
A. A. P. Menzies	Vice-President and General Manager
Miss M. P. Hyndman, Q.C. . . .	Secretary

TRANSFER AGENT and REGISTRAR
The Canada Trust Company

BANKERS — The Bank of Nova Scotia

AUDITORS — Clarkson, Gordon & Co.

BEATTY BROS. LIMITED
Head Office - Fergus, Ontario